

Since last year, Democrats in Congress have made it a priority to bring more transparency and higher ethical standards to the House. Therefore, it was with dismay that we read Daniel Gross's article concerning the STOCK Act, which we have introduced to stop unethical practices in Congress and the federal government ("Insider Trading, Congressional-Style, May 21, 2007).

Mr. Gross asserted that the STOCK Act is "unnecessary." We, on the other hand, believe that the American people have been dismayed to learn that Congressional staffers and Members aren't held to the same standards as employees of ordinary companies when it comes to insider trading. It is simply outrageous that employees of corporations cannot trade on information originating from inside their company, but Members of Congress and their staffers can trade on information originating from within Congress.

Congressional action certainly has the potential to move stock markets. For example, in 2006, the stock prices of several timber companies rose considerably when the public learned that a long-sought tax break for the timber industry had been included in a broader tax bill. A Member of Congress or a staffer making a stock investment based on this information before it was publicly known would have made a hefty profit.

Furthermore, a whole industry has grown around the potential to make money from congressional inside information. Consider the case of the USG Corporation. On November 15, 2005, the stock of this building materials company suddenly doubled, despite the fact that there was no publicly available news about the company, or industry, which explained the increase in trading volume. What the public didn't know yet, but what some investors had discovered through back channels, was that then-Senate Majority Leader Bill Frist had quietly decided to move forward with legislation to relieve companies, such as USG Corp, of their liabilities in asbestos related lawsuits.

Political intelligence firms which transmit this type of information to investors first appeared in the 1970s, but the industry, despite having ballooned into one worth \$40 million annually, remains shrouded in mystery largely because its agencies are not required to register their clients or their earnings. A Wall Street Journal article from December 2006 revealed that hedge funds are hiring lobbyists not to influence government, but merely to tell them what Congress is going to do. Several lobbying firms are ramping up their political intelligence unit, charging hedge funds between \$5,000 and \$20,000 a month for tips and predictions. Lobbying firms are required to register with the House and Senate, and under the STOCK Act, political intelligence

firms would have to do the same.

When authoring this bill, we were very careful to preserve all First Amendment rights. The bill includes a clear definition of political intelligence, one that makes it obvious that information is considered political intelligence only if it is intended for use in analyzing securities or commodities markets. In addition, we anticipated Mr. Gross' concern about media organizations and included a specific exception for communications made by or to a representative of a media organization, so long as the purpose of the communication is gathering and disseminating news and information to the public. Of course, if someone from the press turned around and used nonpublic congressional information to trade stocks, they would be in violation of the new law.

Members of Congress and their staffs should not be above the law when it comes to profiting from sensitive information. Privileging a select group of investors with confidential information about congressional activity is more than just a misuse of a congressional office. It also undermines investor confidence about the fairness and integrity of the securities market. The STOCK Act is not just necessary to ensure the integrity of our investment system, as important as that is. It is also a needed part of our ongoing efforts to restore integrity to this Congress.